SIERRA MADRE GOLD AND SILVER LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

Expressed in Canadian Dollars

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sierra Madre Gold and Silver Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Sierra Madre Gold and Silver Ltd. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2021 and 2020, and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Hawkshaw.

Davidson & Company LLP

Vancouver, Canada

Chartered Professional Accountants

April 26, 2022

SIERRA MADRE GOLD AND SILVER LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31
Expressed in Canadian Dollars

ASSETS		2021		2020
Current				
Cash and cash equivalents *(Note 7)*	$	10,206,323	$	15,280,736
Receivables		24,346		28,702
Prepaid expenses *(Note 6)*		492,970		286,441
		10,723,639		15,595,879
Equipment		5,359		-
Mineral property *(Note 5)*		202,785		202,785
	$	10,931,783	$	15,798,664

LIABILITIES				
Current				
Accounts payable and accrued liabilities *(Note 6)*	$	141,872	$	464,883
Due to related party *(Note 6)*		-		59,191
		141,872		524,074
SHAREHOLDERS' EQUITY				
Share capital *(Note 4)*		16,319,356		2,564,585
Contributed Surplus *(Note 4)*		3,132,975		508,990
Subscriptions received in advance, net of issuance costs *(Note 4)*		-		13,751,256
Deficit		(8,662,420)		(1,550,241)
		10,789,911		15,274,590
	$	10,931,783	$	15,798,664

Subsequent event *(Note 12)*

ON BEHALF OF THE BOARD:

"Alexander Langer", Director

"Sean McGrath", Director

- the accompanying notes are an integral part of these financial statements -

SIERRA MADRE GOLD AND SILVER LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Expressed in Canadian Dollars

	Share Capital *(Note 4)*	Contributed Surplus *(Note 4)*	Subscriptions Received In Advance *(Note 4)*	Deficit	Total
Balance – December 31, 2019	$ 400,000	$ -	$ 113,000	$ (346,771)	$ 166,229
Private placement – shares	2,124,167	-	(113,000)	-	2,011,167
Share issuance costs	(27,383)	-	-	-	(27,383)
Private placement – subscription receipts	-	-	15,321,750	-	15,321,750
Subscription receipts issuance costs	-	-	(1,061,504)	-	(1,061,504)
Finders' warrants issued – subscription receipts	-	508,990	(508,990)	-	-
Deemed shares issued in RTO transaction *(Note 3)*	67,801	-	-	-	67,801
Comprehensive loss for the year	-	-	-	(1,203,470)	(1,203,470)
Balance – December 31, 2020	2,564,585	508,990	13,751,256	(1,550,241)	15,274,590
Subscription receipts converted to shares	13,751,256	-	(13,751,256)	-	-
Exercise of warrants	3,515	(1,205)	-	-	2,310
Share-based compensation	-	2,625,190	-	-	2,625,190
Comprehensive loss for the year	-	-	-	(7,112,179)	(7,112,179)
Balance – December 31, 2021	$ 16,319,356	$ 3,132,975	$ -	$ (8,662,420)	$ 10,789,911

SIERRA MADRE GOLD AND SILVER LTD.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

Expressed in Canadian Dollars

		2021		2020
Expenses				
Accounting and audit *(Note 6)*	$	164,542	$	144,000
Consulting *(Note 6)*		15,000		75,000
Depreciation		2,296		-
Director fees *(Note 6)*		81,000		-
Exploration and evaluation *(Notes 5 and 6)*		2,450,552		504,028
Foreign exchange loss		49,961		16,880
Interest income		(8,819)		(2,301)
Investor relations and promotions *(Note 6)*		928,629		28,982
Legal		149,568		70,424
Management fees *(Note 6)*		384,000		267,000
Office services and supplies		70,141		16,208
Share-based compensation *(Note 4)*		2,625,190		-
Shareholder communications		17,813		-
Stock exchange and filing		87,457		17,928
Transfer agent		21,461		-
Travel and accommodation		73,388		21,619
Loss for the year before other item		7,112,179		1,159,768
Transaction expense – RTO transaction *(Note 3)*		-		43,702
Loss and comprehensive loss for the year	$	7,112,179	$	1,203,470
Loss per share – basic and diluted	$	0.13	$	0.05
Weighted-average number of shares outstanding – basic and diluted		56,720,807		25,518,573

- the accompanying notes are an integral part of these financial statements -

SIERRA MADRE GOLD AND SILVER LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
Expressed in Canadian Dollars

CASH RESOURCES PROVIDED BY (USED IN)		2021		2020
Operating activities				
Loss for the year	$	(7,112,179)	$	(1,203,470)
Item not involving cash				
Transaction expense – RTO transaction		-		43,702
Share-based compensation		2,625,190		-
Depreciation		2,296		-
Changes in non-cash working capital				
Receivables		4,356		(20,902)
Prepaid expenses		(206,529)		(286,441)
Accounts payable and accrued liabilities		(12,946)		132,930
		(4,699,812)		(1,334,181)
Investing activities				
Cash acquired upon acquisition of subsidiary		-		34,589
Payment of accrued transaction costs – RTO transaction		(15,357)		-
Purchase of equipment		(7,655)		-
		(23,012)		34,589
Financing activities				
Payment of accrued subscription receipts issuance costs		(294,708)		-
Share capital issued for cash		2,310		2,011,167
Share issuance costs		-		(27,383)
Subscriptions received in advance		-		15,321,750
Subscription receipts issuance costs		-		(766,796)
Advances received from related party		-		-
Repayment of advances from related party		(59,191)		(925)
		(351,589)		16,537,813
Change in cash and cash equivalents for the year		(5,074,413)		15,238,221
Cash and cash equivalents - beginning of year		15,280,736		42,515
Cash and cash equivalents - end of year	$	10,206,323	$	15,280,736

Supplemental schedule of non-cash investing and financing transactions				
Deemed shares issued for acquisition of subsidiary	$	-	$	67,801
Shares issued for subscriptions received in advance	$	-	$	113,000
Shares issued on conversion of subscription receipts, net of costs	$	13,751,256	$	-
Costs included in accounts payable:				
- Subscription receipts issuance costs	$	-	$	294,708
- Transaction costs – RTO transaction	$	-	$	15,357
Finders' warrants issued – subscription receipts	$	-	$	508,990
Fair value of warrants exercised	$	1,205	$	-
Receivable assumed upon acquisition of subsidiary	$	-	$	7,800
Accounts payable assumed upon acquisition of subsidiary	$	-	$	2,933

Supplemental cash flow information				
Interest received	$	11,120	$	-
Interest paid	$	-	$	-
Income taxes paid	$	-	$	-

- the accompanying notes are an integral part of these financial statements -

1. NATURE OF OPERATIONS

Sierra Madre Gold and Silver Ltd. (the "Company") was incorporated on October 10, 2017 in British Columbia and has its head office located at 10th Floor – 595 Howe Street, Vancouver, British Columbia, Canada. The Company was incorporated as L1 Capital Corp. and changed its name to Sierra Madre Gold and Silver Ltd. on December 15, 2020. The Company received a conditional listing approval from the TSX Venture Exchange on March 25, 2021 and its shares commenced trading under the ticker symbol "SM" on April 19, 2021.

On November 30, 2020, the Company completed a merger (reverse take-over) with a private BC company, Sierra Madre Holdings Ltd. ("Sierra Madre Holdings"), whereby the Company, the legal acquirer, acquired all of the issued and outstanding shares of Sierra Madre Holdings, the legal subsidiary, through a share exchange agreement. The transaction *(Note 3)* resulted in Sierra Madre Holdings becoming the accounting parent. These consolidated financial statements represent the continuation of the financial statements of Sierra Madre Holdings except as to share capital structure, which has been retroactively restated to reflect the legal capital of the Company *(Note 4)*.

The Company holds an interest in the Tepic and La Tigra mineral properties located in Mexico, which are considered to be in the exploration stage. Based on the information available to date, the Company has not yet determined whether its mineral properties contain ore reserves. The Company has no source of operating revenue and is dependent upon the issuance of shares to fund its operations and exploration activities. The Company's continuing operation is dependent upon establishing reserves and resources, maintaining its rights, access, and title to the properties, obtaining the financing necessary to maintain operations and successfully complete its exploration and development, and attaining future profitable production.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations for at least the next twelve months. As at December 31, 2021, the Company had a deficit of $8,662,420 (2020 - $1,550,241) and working capital (current assets less current liabilities) of $10,581,767 (2020 – $15,071,805), which management considers to be sufficient to fund its planned operating and exploration activities for the ensuing twelve months.

The outbreak of the COVID-19 global pandemic has adversely affected workforces, economies, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS and the interpretations of the International Financial Reporting Interpretations Committee using those standards in effect for the reporting year ended December 31, 2021. The Company's board of directors approved these financial statements for issue on April 26, 2022.

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention using the accrual basis of accounting, except for cash flow information.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION *- continued*

Significant accounting estimates, judgements, and assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgements, and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the period. Actual amounts could differ from these estimates. The Company's most significant accounting judgements relate to the determination of functional currency, the assumptions used to estimate share-based compensation, and the ongoing viability of its mineral property.

The Company has considered all primary and secondary indicators under IFRS and determined that the functional currency of its subsidiaries is the Canadian dollar. While transactions conducted outside of Canada are typically denominated in either the Mexican peso or the U.S. dollar, the subsidiaries have no revenues from operations and are dependent upon the Company for financing of operations and exploration activities, which are largely determined in Canada.

The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of options and warrants, which requires the input of subjective assumptions including the expected price volatility of the Company's common shares and the expected life and forfeiture rate of the security. Changes in these subjective input assumptions can materially affect the fair value estimate.

Management must determine if there are indicators that its rights to explore its mineral properties have expired or may expire in the future, that future exploration and evaluation plans are not warranted, or that the development of the properties or portions thereof is unlikely to recover existing exploration and evaluation costs. Should any of these indicators be present, the mineral property could be impaired.

Principles of consolidation

As a result of the reverse take-over transaction completed on November 30, 2020 *(Note 3)*, these consolidated financial statements include the accounts of the Company (the accounting subsidiary) from December 1, 2020, and the continuing operations of Sierra Madre Holdings (the accounting parent), which include the accounts of Pita Exploration Limited (a British Columbia company) and Pita Exploration, S. de R.L. de C.V. (a Mexican company).

These consolidated financial statements also include the accounts of Minera Sierra Madre Oro Y Plata S. de R.L. de C.V., a wholly-owned Mexican subsidiary incorporated by the Company on May 5, 2021.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant inter-company transactions, balances, and unrealized foreign exchange translation gains or losses have been eliminated.

Foreign currency translation

The presentation currency of the Company and the functional currency of the Company and its subsidiaries is the Canadian dollar. Transactions denominated in foreign currencies are translated at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Translation gains and losses are reflected in profit or loss for the period.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION - *continued*

Cash and cash equivalents

Cash and cash equivalents include balances held through current operating and savings bank accounts or in short-term guaranteed investment certificates with maturities at the date of inception of less than three months. These instruments are held at major financial institutions and currently earn nominal market interest, are readily convertible into known amounts of cash, and which are subject to an insignificant risk of change in nominal value.

Equipment

Equipment is recorded at cost less accumulated depreciation, which is calculated on a declining balance basis using an annual rate of 45%. Equipment is reviewed for impairment if there is an indication that the carrying amount may not be recoverable.

Exploration and evaluation

The Company is currently in the exploration stage in respect of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, option payments, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination or a business combination accounted for as an asset acquisition.

Exploration and evaluation expenditures are expensed in the period they are incurred. The Company capitalizes expenditures associated with the acquisition of exploration and evaluation assets through a business combination and the costs of significant property acquisitions to the extent that such costs can be directly attributed to an area of interest where it is considered likely that such costs will be recoverable by future exploitation or sale of the acquired property. Development costs relating to specific properties are capitalized once management has made a development decision.

From time to time, the Company may acquire or dispose of mineral interests pursuant to the terms of option agreements. Where such options are exercisable entirely at the discretion of the optionee, the related amounts are recorded in the period they are paid or received. Option payments are expensed as exploration expenditures and option receipts are credited against capitalized acquisition costs, if any, and then to profit or loss for the period. The Company does not accrue costs to maintain mineral interests in good standing. Expenditure recoveries are recorded in the period that reasonable assurance of the receipt of such recovery is received.

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral properties that the Company is required to settle. The Company recognizes the fair value of liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is recorded as a liability with a corresponding charge to operations. The liability is accreted over time to reflect an interest element in the estimated future cash flows considered in the initial measurement. The Company's estimates of provisions for restoration obligations could change as a result of changes in regulations, the discount rate, the extent of environmental remediation required, the means of reclamation, or the cost estimates. Changes in estimates are recorded in the period in which the estimates are revised. The Company has determined that it had no significant restoration obligations as at December 31, 2021 or 2020.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION – *continued*

Impairment

Financial assets are reviewed at the end of each reporting period for objective evidence indicating that changes in the market, economic, or legal environment has had a negative effect on the estimated future cash flows of the asset or group of assets. The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition, based on all information available, and reasonable and supportive forward-looking information.

The carrying values of non-financial assets are reviewed at the end of each reporting period for indications of impairment. Exploration and evaluation assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Should indications of impairment exist, the recoverable amount of the asset is estimated as the higher of fair value less selling costs and value-in-use. Fair value is estimated as the net amount that would be realized from the sale of the asset to a knowledgeable and willing arm's length party. Value-in-use is determined using estimated future cash flows, discounted using a pre-tax discount rate that reflects the time value of money and risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount by an impairment loss that is recognized in profit or loss for the period. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to a maximum of its original carrying value, with the reversal being recognized in profit or loss for the period.

Loss per share

Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. The Company computes the dilutive effect of options, warrants and similar instruments and its effect on earnings per share is calculated based on the use of the proceeds that would be obtained upon exercise of in-the-money options, warrants and similar instruments. It is assumed that the proceeds would be used to purchase common shares at the average market price during the period. Stock options and share purchase warrants are not included in the computation of diluted loss per share due to their anti-dilutive effect.

Share capital

Share capital issued for non-monetary consideration is recorded at the fair value of the non-monetary consideration received, or at the fair value of the shares issued if the fair value of the non-monetary consideration cannot be measured reliably, on the date of issue. The Company uses the residual value approach in respect of unit offerings, whereby the amount assigned to the warrant is the excess, if any, of the unit price over the trading price of the Company's shares at the date of issuance.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION – *continued*

Income taxes

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is accounted for using the liability method, which recognizes differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets are recognized only to the extent that sufficient taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in the period that the substantive enactment occurs. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share-based compensation

The Company uses the fair value method whereby share-based compensation costs are recognized over the vesting periods for grants of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to share capital. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its share-based compensation. The fair value of each grant is measured at the grant date and, where vesting is not immediate, each tranche is recognized over the vesting period. In situations where options are granted to non-employees and some or all of the services provided cannot be specifically valued, the services are measured at the fair value of the share-based compensation. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

Financial Instruments

The Company classifies its financial instruments in accordance with IFRS 9 – *Financial Instruments* based on the Company’s business model for managing its financial instruments, which includes the purpose for which the financial instruments were acquired as well as their contractual cash flow characteristics. Financial instruments are classified under three primary measurement categories: amortized cost, fair value through other comprehensive income (“FVTOCI”), and fair value through profit or loss (“FVTPL”).

Determination of the classification of financial instruments is made at initial recognition and reclassifications are made only upon the Company changing its business model for managing its financial instruments. Financial assets are derecognized when they mature or are sold, and substantially all of the risks and rewards of ownership have been transferred. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, upon initial recognition the Company can make a one-time irrevocable election to designate them as FVTOCI.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION – *continued*

Financial Instruments – *continued*

Financial assets

FVTPL

Financial assets classified as FVTPL are initially recognized at fair value with transaction costs being expensed in the period incurred. Realized gains and losses recognized upon derecognition and unrealized gains and losses arising from changes in the fair value of the financial assets are included in profit or loss in the period in which they arise.

FVTOCI

Investments in equity instruments classified as FVTOCI are initially recognized at fair value plus transaction costs. Unrealized gains and losses arising from changes in fair value are recognized in other comprehensive income with no subsequent reclassification to profit or loss upon derecognition. Realized gains and losses recognized upon derecognition remain within accumulated other comprehensive income.

Amortized cost

A financial asset is measured at amortized cost if the objective of the Company's business model is to hold the instrument for the collection of contractual cash flows, which are comprised solely of payments of principal and interest. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Impairment losses are included in profit or loss in the period the impairment is recognized.

Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL.

Fair value hierarchy

The Company's financial assets and liabilities are classified in accordance with a fair value hierarchy, which establishes three levels to classify the inputs to valuation techniques used to measure fair value as follows: Level 1 – valuation based on unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 – valuation based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and Level 3 – valuation based on inputs that are not based on observable market data.

3. REVERSE TAKE-OVER TRANSACTION

On November 30, 2020, the Company completed a three-cornered amalgamation with Sierra Madre Holdings. Under the terms of the amalgamation agreement, the Company acquired all of the issued and outstanding common shares of Sierra Madre Holdings by issuing 31,938,887 of its common shares, on a one-for-one basis, through a share exchange agreement. The result of this transaction is that the shareholders of Sierra Madre Holdings effectively gained control of the Company, thereby constituting a reverse acquisition whereby the Company (the legal parent) has been treated as the accounting subsidiary and Sierra Madre Holdings (the legal subsidiary) has been treated as the accounting parent.

Expressed in Canadian Dollars

3. REVERSE TAKE-OVER TRANSACTION – *continued*

The Company does not meet the definition of a business under IFRS 3, *Business Combinations,* and therefore the transaction has been treated as an asset acquisition and not as a business combination and has been accounted for as a capital transaction under IFRS 2 – *Share-Based Payments*. The transaction is considered a purchase of the Company's net assets and has been accounted for as an issuance of shares by Sierra Madre Holdings to acquire the net assets of the Company.

Upon completion of the amalgamation, each shareholder of the Company held a proportional interest in 4% of the capital stock of the combined company and each shareholder of Sierra Madre Holdings held a proportional interest in 96% of the capital stock of the combined company.

The transaction purchase price has been allocated as follows:

Consideration:		
Fair value of 1,356,001 shares retained by the Company's shareholders (deemed issued by Sierra Madre Holdings)	$	67,801
Legal fees to complete the transaction		24,786
Total purchase price		92,587
Net assets acquired:		
Cash		44,018
Subscriptions receivable		7,800
Accounts payable		(2,933)
		48,885
Transaction expense	$	43,702

The fair value of the shares retained by the shareholders of the Company was estimated at $0.05 per share based on a recent private placement. In accordance with IFRS 2, the excess of the fair value of the purchase price over the fair value of the net assets acquired has been recorded as a transaction expense.

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS

The Company's authorized share capital consists of an unlimited number of voting common shares without par value.

The Company has an Incentive Stock Option Plan that complies with the rules set forth by the TSX Venture Exchange limiting the total number of incentive stock options to 10% of the issued common shares. Stock options may be issued at the discretion of the board of directors and may be exercisable during a period not exceeding ten years. Vesting provisions are at the discretion of the board of directors, subject to the policies of the TSX Venture Exchange.

Share consolidation

Effective September 18, 2020, the Company consolidated its outstanding common shares on the basis of one post-consolidation share for every 1.5 pre-consolidation shares. All information and per-share amounts in respect of issued and outstanding shares, stock options, share purchase warrants, and loss per share have been retrospectively adjusted to reflect the consolidation.

Expressed in Canadian Dollars

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS – *continued*

Presentation

In accordance with the reverse take-over transaction completed on November 30, 2020 *(Note 3)*, the Company issued 31,938,887 of its common shares, on a one-for-one basis, through a share exchange agreement. The share capital presented in these consolidated financial statements represents that of Sierra Madre Holdings, the accounting parent, except as to the legal capital structure, which has been retrospectively restated to reflect the legal capital structure of the Company, the legal parent, using the exchange ratio of one-to-one as provided by the amalgamation agreement to reflect the number of shares issued by the Company in the reverse take-over transaction. Loss-per-share amounts have also been retrospectively restated to reflect the reverse take-over transaction.

Details of the issued and outstanding shares and contributed surplus are as follows:

	Number of Shares	Share Capital	Contributed Surplus
Balance – December 31, 2019	17,777,780	$ 400,000	$ -
Private placement – shares	14,161,107	2,124,167	-
Share issuance costs	-	(27,383)	-
Finders' warrants – subscription receipts	-	-	508,990
Deemed shares issued in RTO transaction *(Note 3)*	1,356,001	67,801	-
Balance – December 31, 2020	33,294,888	2,564,585	508,990
Subscription receipts converted to shares	30,643,500	15,321,750	-
Share issuance costs	-	(1,570,494)	-
Exercise of warrants	4,620	2,310	-
Fair value of warrants exercised	-	1,205	(1,205)
Share-based compensation	-	-	2,625,190
Balance – December 31, 2021	63,943,008	$ 16,319,356	$ 3,132,975

Share issuances

In June 2020, the Company completed a non-brokered private placement by issuing 14,161,107 common shares at a price of $0.15 per share for proceeds of $2,124,167. Share subscriptions of $113,000 were received prior to December 31, 2019. The Company paid $27,383 in legal and filing fees in respect of the placement.

In October 2020, the Company completed a private placement of 30,643,500 subscription receipts at a price of $0.50 per subscription receipt for gross proceeds of $15,321,750. The subscription receipts automatically converted into shares of the Company on March 28, 2021, three days after the Company obtained a conditional listing approval from the TSX Venture Exchange. The Company incurred finders' fees of $1,023,820, legal and filing fees of $37,684, and issued 1,951,565 share purchase warrants to qualified finders. The fair value of the finders' warrants was estimated at $508,990 using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions: risk-free interest rate of 0.23%, expected dividend yield of 0.00%, estimated stock price volatility of 100%, and expected option life of 2.00 years. These costs, totalling $1,570,494, were recorded as share issuance costs upon conversion of the subscription receipts.

During the year, 4,620 warrants were exercised for proceeds of $2,310. The fair value of the warrants exercised, estimated at $1,205 at the time of issue, has been transferred from contributed surplus to share capital.

Expressed in Canadian Dollars

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS *- continued*

Shares held in escrow

A total of 20,641,776 shares held by directors, officers and seed shareholders of the Company were held in escrow until October 19, 2021, being six months after the date that the Company obtained a listing of its shares on the TSX Venture Exchange, and were released as to 10% on that date with tranches of 15% being released each six months thereafter. An additional 13,089,107 shares issued in the June 2020 private placement were subject to a hold period until July 19, 2021, being three months after the date that the Company obtained its listing and were released as to 8.33% on that date with tranches of 8.33% being released each month thereafter. As at December 31, 2021, there was a total of 25,122,151 shares remaining in escrow and subject to hold periods.

Stock options and warrants

Stock option and share purchase warrant transactions are summarized as follows:

	Warrants			Options		
	Number		Weighted Average Exercise Price	Number		Weighted Average Exercise Price
Outstanding, December 31, 2019	-	$	-	-	$	-
Issued	1,951,565	$	0.50	-	$	-
Outstanding, December 31, 2020	1,951,565	$	0.50	-	$	-
Exercised	(4,620)	$	0.50	-	$	-
Granted	-	$	-	4,985,000	$	0.74
Outstanding, December 31, 2021	1,946,945	$	0.50	4,985,000	$	0.74
Exercisable, December 31, 2021	1,946,945	$	0.50	3,292,500	$	0.74

At December 31, 2021, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

	Number of Shares		Exercise Price	Expiry Date
Options	385,000	$	0.74	April 26, 2023
	4,600,000	$	0.74	April 26, 2026
	4,985,000			

	Number of Shares		Exercise Price	Expiry Date
Warrants	840,490	$	0.50	October 7, 2022
	1,106,455	$	0.50	October 15, 2022
	1,946,945			

At December 31, 2021, the weighted-average remaining life for the outstanding stock options was 4.09 years and 0.78 years for the outstanding warrants.

Expressed in Canadian Dollars

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS - *continued*

Share-based compensation

In April 2021, the Company granted 4,600,000 five-year stock options and 200,000 two-year stock options to directors, officers, and consultants; these options vest as to one-third on the grant date, one-third after six months, and the remaining one-third after twelve months. The Company also granted 185,000 two-year stock options to investor relations consultants; these options vest as to 25% three months after the grant date and 25% each three months thereafter. Share-based compensation is recorded over the vesting period.

The following table presents information relating to incentive stock options granted and vested during the years ended December 31:

	2021	2020
Options granted	4,985,000	-
Options vested	3,292,500	-
Weighted-average exercise price	$ 0.74	$ -
Estimated fair value per option	$ 0.59	$ -
Estimated fair value of options granted	$ 2,935,990	$ -
Compensation recognized	$ 2,625,190	$ -

The fair value of the share-based compensation to be recognized in the accounts over the vesting periods has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

	2021	2020
Risk-free interest rate	0.88%	-
Expected dividend yield	0.00%	-
Expected stock price volatility	100%	-
Expected forfeiture rate	0.00%	-
Expected option life in years	4.77	-

5. MINERAL PROPERTY AND EXPLORATION AND EVALUATION

Tepic Property, Mexico

In December 2017, the Company entered into an agreement providing it with the option to purchase a 100% interest in the Tepic project located in Nayarit, Mexico. To maintain the option, the Company must keep the concessions in good standing during the term of the agreement and pay the owner US$450,000 in semi-annual payments of US$50,000 over four years. As at December 31, 2021, payments totalling US$400,000 had been made to the option holder and the agreement was in good standing *(Note 12)*.

Upon completing total payments of US$450,000, the Company can exercise its option and complete the purchase of the property by either making a final payment to the owner of US$1,500,000 or granting a 3% net smelter returns royalty ("NSR"), which would be extinguished upon payment of a total of US$4,000,000 in royalty payments. Should the Company elect to grant the NSR, it would subsequently have the right to purchase the NSR from the owner at a price of US$1,000,000 for each 1% (one-third) of the NSR purchased, to a maximum of US$3,000,000 for the entire NSR.

Expressed in Canadian Dollars

5. MINERAL PROPERTY AND EXPLORATION AND EVALUATION – *continued*

Tepic Property, Mexico – *continued*

The carrying value of the Tepic project consists of the fair value of the asset acquired through the acquisition of Pita Exploration Limited and its wholly-owned subsidiary Pita Exploration, S. de R.L. de C.V., which holds an interest in the property. The carrying value of $202,785 represents the cost of acquiring the asset and does not necessarily represent the current or future value.

La Tigra Property, Mexico

In June 2021, the Company entered into an agreement pursuant to which the Company obtained the right to explore and the option to acquire an interest in the La Tigra project located in Nayarit, Mexico. Under the terms of the agreement the Company must make cash payments of US$1,500,000 to the owner of the property over three years as follows:

		Cash Payments
Upon signing of the agreement *(paid)*	US$	75,000
On or before December 31, 2021 *(paid)*		75,000
On or before June 21, 2022		112,500
On or before December 31, 2022		112,500
On or before June 21, 2023		250,000
On or before December 31, 2023		375,000
On or before June 21, 2024		500,000
	US$	1,500,000

The Company must also complete a National Instrument 43-101 compliant technical report containing a resource estimation before June 21, 2024 and make a written election to exercise its right to acquire the property upon completion of the cash payments and delivery of the compliant technical report.

Upon the Company completing its option payments, delivering the compliant technical report and the election, the owner can either:

- if the technical report estimate contains more than one million ounces of gold mineral resources, elect to form a joint venture with the Company and be assigned a 51% interest in the joint venture with the Company being assigned a 49% interest; or
- regardless of the number of ounces reported in the technical report, elect to transfer a 100% interest in the property to the Company and retain a 2.5% NSR. The Company can reduce the NSR to 1.5% upon payment to the owner of US$1,500,000 at any time and to 0.5% upon payment to the owner of a further US$1,000,000.

During the year ended December 31, 2021, the Company paid a finder’s fee of US$68,750 on the transaction.

Expressed in Canadian Dollars

5. MINERAL PROPERTY AND EXPLORATION AND EVALUATION – *continued*

Expenditures

The Company expenses exploration and evaluation expenditures in the period incurred. Expenditures for the years ended December 31 and cumulative expenditures as at December 31, 2021 are as follows:

Mexico	Expenditures 2021	Expenditures 2020	Cumulative 2021
Tepic			
Options payments	$ 145,587	$ 162,468	$ 538,225
Administration *(Note 6)*	34,414	3,697	41,613
Assays	162,230	1,822	164,052
Consulting	6,569	-	6,569
Drilling	231,620	-	231,620
Environmental and permits	16,325	5,539	21,864
Field materials	69,722	6,547	83,315
Geology *(Note 6)*	510,717	136,385	647,102
Land holding costs	58,750	87,636	214,369
Legal	125,698	29,867	161,920
Local labour	65,629	-	65,629
Mapping and survey	10,384	47,940	58,324
Road work	8,476	7,245	15,721
Surface rights and social license	51,484	-	51,484
Transportation and rentals	10,235	1,663	11,898
Travel and accommodation	107,720	13,219	120,939
	1,615,560	504,028	2,434,644
La Tigra			
Options payments	308,134	-	308,134
Administration *(Note 6)*	23,290	-	23,290
Assays	46,701	-	46,701
Consulting	33,189	-	33,189
Environmental and permits	15,404	-	15,404
Field materials	8,388	-	8,388
Geology *(Note 6)*	293,114	-	293,114
Land holding costs	3,954	-	3,954
Legal	7,354	-	7,354
Local labour	47,543	-	47,543
Mapping and survey	1,497	-	1,497
Transportation and rentals	1,369	-	1,369
Travel and accommodation	45,055	-	45,055
	834,992	-	834,992
	$ 2,450,552	$ 504,028	$ 3,269,636

Title

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to its mineral properties and, to the best of its knowledge, title is in good standing and in accordance with the related option agreement.

Expressed in Canadian Dollars

6. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had transactions with related persons or corporations, which were undertaken in the normal course of operations. Key management includes directors and officers. The compensation paid or payable to key management and parties related to them for the years ended December 31 is as follows:

	2021	2020
Accounting	$ 120,000	$ 90,000
Administration (exploration and evaluation)	28,112	-
Consulting	-	75,000
Director fees	81,000	-
Geological (exploration and evaluation)	90,000	33,000
Investor relations and promotions	-	7,500
Management fees	384,000	267,000
	$ 703,112	$ 472,500

In addition, the Company recorded share-based compensation of $1,937,908 (2020 - $nil), which relates to incentive stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 4.

As at December 31, 2021, accounts payable includes $18,734 due to an officer of the Company for expenses due for reimbursement.

During 2020, there were balances with related parties as follows: due to related party of $59,191 consisted of advances made to, and expenses paid on behalf of, the Company by a director of the Company. This balance was unsecured, non-interest bearing, due on demand, and repaid during 2021. Accounts payable included $61,612 due to a director of the Company for expenses paid on behalf of the Company during 2020; these amounts were reimbursed to the director during 2021. Prepaid expenses included $282,000 in accounting, management, and geological consulting fees that were prepaid to directors and officers in 2020; these amounts were drawn down against services rendered during various months from January to June 2021.

7. FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, which is measured at FVTPL, and receivables, accounts payable, and due to related party, which are measured at amortized cost. The carrying values approximate their fair values due to the short-term nature of these instruments.

Cash and cash equivalents include $10,206,323 (2020 - $13,678,435) held through current operating and savings bank accounts and $nil (2020 - $1,602,301) in short-term guaranteed investment certificates.

8. RISK MANAGEMENT

The Company is exposed to various financial risks as detailed below:

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's primary credit risk is associated with its Canadian cash balances, which are held through a major Canadian financial institution with a high investment grade rating. The Company also maintains cash balances denominated in pesos and U.S. dollars, held through a major bank in Mexico, which also has a high investment grade rating. The carrying value of the Company's cash and cash equivalents and receivables of $10,230,669 represents the Company's maximum exposure to credit risk as at December 31, 2021 (2020 - $15,309,438).

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of the Company's financial instruments will fluctuate due to changes in exchange rates. As at December 31, 2021, the Company carried cash and accounts payable balances denominated in Mexican pesos and U.S. dollars, which are subject to currency risk due to fluctuations in the exchange rates with the Canadian dollar.

Due to the volatility of the exchange rates between the Canadian dollar, the peso, and the U.S. dollar, such currency risk could result in future gains or losses to the Company. Based on the Company's monetary assets and liabilities denominated in Mexican pesos and U.S. dollars as at December 31, 2021, a 10% fluctuation in the exchange rates of these currencies would result in a gain or loss of approximately $5,017 and $14,577, respectively (2020 - $4,723 and $12,187, respectively).

Liquidity Risk

Without operating revenues, the Company is subject to liquidity risk such that it may not be able to meets its obligations under its financial instruments as they fall due *(Note 1).* The Company manages this risk by maintaining cash balances to ensure that it is able to meet its short- and long-term obligations as and when they fall due. Cash projections are regularly updated to reflect the dynamic nature of the business. To date, the Company's capital requirements have been met by equity subscriptions. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

Interest Rate Risk

Interest rate risk relates to the effect on the Company's financial instruments due to changes in market rates of interest. The Company holds cash and cash equivalents, which earn nominal rates of interest, and had a short-term liability due to a related party, which was non-interest bearing. The Company considers its interest rate risk in respect of these instruments to be immaterial.

Expressed in Canadian Dollars

9. INCOME TAXES

The Company operates in two tax jurisdictions and is subject to varying rates of taxation. The Company has various non-capital tax losses and deferred exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended December 31 are as follows:

		2021		2020
Loss before income taxes for accounting purposes	$	(7,112,179)	$	(1,203,470)
Expected tax recovery for the year		(1,920,288)		(324,937)
Effect of different tax rate on foreign losses		(65,073)		(12,455)
Non-deductible expenses, recoveries, and other		740,345		1,576
Change in unrecognized deductible temporary differences and other		1,245,016		335,816
Tax expense (recovery) for the year	$	-	$	-

Deferred taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets as at December 31 are as follows:

		2021		2020
Non-capital loss carry-forwards	$	776,000	$	217,000
Equipment and other		7,000		-
Share issuance costs		4,000		6,000
Exploration expenditures		864,000		214,000
Unrecognized deferred tax assets	$	1,651,000	$	437,000

The Company's deferred tax assets expire as follows:

		2021	Expiry Date Range		2020
Non-capital losses	$	2,871,000	2027 to 2041	$	801,000
Equipment and other	$	27,000	No expiry	$	-
Share issuance costs	$	16,000	2041 to 2044	$	22,000
Exploration expenditures	$	2,880,000	2027 to 2041	$	714,000

10. CAPITAL DISCLOSURES

The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no long-term debt and typically finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest-bearing bank account or guaranteed investment certificate until such time as it is required to pay operating expenses or exploration and evaluation costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the current year.

11. SEGMENTED INFORMATION

The Company currently operates in only one operating segment, that being the mineral exploration industry. The Company currently operates in Canada and Mexico, has minimal physical assets, and is maintaining interests in mineral properties located in Mexico.

12. SUBSEQUENT EVENT

Subsequent to December 31, 2021, the Company paid the final payment of US$50,000 due under its option agreement on the Tepic project *(Note 5)*.